REQUEST FOR PROPOSALS

FOR THE MANAGEMENT OF GAS SUPPLY PORTFOLIO

A. OVERVIEW

COMMONWEALTH GAS COMPANY (the Company or **ComGas**) is a local gas distribution company (LDC) regulated by the Massachusetts Department of Telecommunications and Energy (Mass DTE or Department). To provide continued safe, reliable and competitively priced gas supplies to its customers, **ComGas** requests bids from qualified parties to: manage **ComGas**' upstream gas supply assets including commodity, transportation, and storage contracts (Portfolio); cooperate in resource management changes throughout the Company's implementation of the state-mandated capacity assignment program as firm sales customers migrate to transportation service; and provide default service supply to customers who want to continue obtaining firm sales service from **ComGas**. Proposals to manage the Company's Portfolio should be at least one year in term, but no more than three years. The Company may choose to elect one bidder to manage the entire Portfolio or select one bidder to manage the portion of the system served by Tennessee Gas Pipeline Company (Tennessee) and another bidder to manage the portion of the system served by Algonquin Gas Transmission Company (Algonquin). LNG will not be part of the asset management RFP and will be managed by the Company. The deal will commence (following receipt of the necessary regulatory approvals) on April 1, 2000 and continue forward for a period ranging from one to three years depending upon the Company's decision after evaluating the bids. All proposals should include a fixed up-front payment, the principal amount of which must be paid to the Company without condition or reservation, but which may or may not include an additional sharing mechanism. The following information is provided to assist prospective bidders in evaluating the Company's supply portfolio and related obligations.

B. DISCLAIMER

The information provided to all prospective bidders in this RFP is to the best of the Company's knowledge and the Company shall not be held responsible for future modifications made to interstate pipeline rates, terms and conditions or tariff provisions. Also, any future projections made regarding the firm sales forecast and load duration curves are subject to change. The Company reserves the right to modify or withdraw this RFP, in its sole discretion, or because of an order or other directive from a jurisdictional regulatory body or court. The Company also reserves the right to reject any bid that does not meet the requirements set forth in this RFP. The Company shall have no obligation to accept the lowest-price bid and may, in its sole discretion, reject any and all bids.

The Company further reserves the right to accept entire proposals or portions of proposals submitted by a bidder.

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C. OBJECTIVES FOR PORTFOLIO MANAGEMENT

The Company's major objectives in requesting proposals for Portfolio Management are as follows:

1. To optimize the Company's supply, transportation and storage assets in order to achieve substantial permanent reductions in the Company's citygate unit cost, while maintaining safe and reliable service for customers.

2. To identify strategies and opportunities aimed at maximizing the value of the Company's Portfolio resources. Moreover, to optimize the utilization of such resources during the transition to a deregulated gas supply market in a manner that is responsive to regulatory unbundling programs now being developed in Massachusetts and that will yield benefits for the Company and its customers.
3. To establish a mutually beneficial business relationship over time that will have strategic value for both the Company and the Portfolio Manager. Such a relationship should be flexible enough to adapt to changing regulatory and market conditions and facilitate efficient information flow between the respective companies.

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D. LOAD PROFILE

ComGas provides service to approximately 232,000 natural gas customers in 53 communities located in four geographic areas in the vicinities of Worcester, Framingham, New Bedford, and Cambridge, Massachusetts. The Company's total throughput in 1999 was 48.3 Bcf, of which 35.5 Bcf was to firm sales customers and about 10.7 Bcf was to transportation customers and interruptible customers. Service to residential and small commercial customers constitutes 75% of the Company's firm load. Under normalized weather conditions, **ComGas'** total throughput in 1999 was 48.3 BCF and is projected to grow by 3.7% per year during the next 5 years. Record throughput peak of 365,799 MMBtu occurred on January 19, 1994, of which 170,841 MMBtu (47%) came from the Company's LNG supplies.

The Company has allowed large industrial and commercial customers to migrate from firm sales service to transportation service for the last several years. A Statewide collaborative effort for implementing retail unbundling for all customers in Massachusetts has been underway since 1997. While a majority of issues have been resolved and approved by the Mass DTE, some implementation issues are still waiting for regulatory action. As soon as a decision is reached by the Department, and a date is announced to implement full retail unbundling, the Company will immediately implement the Mass DTE's directive. The latest order on capacity assignment (D.T.E. 98-32-B) allows all customers to migrate from firm sales service to transportation service but mandates them to accept their pro-rata share of the resources (transportation, storage, peaking and company-managed supply resources) at full cost. Projections of the Company's load forecast for both default service and migration from firm sales to transportation are in **Attachments A through D**; however, actual load in the future will vary based on weather, regional, economic and market conditions and other factors. Therefore, each interested party should rely upon its own analysis in formulating a proposal in response to this RFP. Under this mandatory assignment program, the potential Portfolio Manager will assume no risk of having to optimize the excess capacity.

E. PORTFOLIO

Two interstate pipelines, Texas Eastern Transmission Company Texas Eastern/Algonquin and Tennessee, serve the Company's service territory. The Company has 84,131 MMBtu a day of firm long haul capacity on Texas Eastern to Algonquin and 47,387 MMBtu a day of long haul capacity on Tennessee. In addition, the Company has 142,506 shorthaul Algonquin transportation, 65,749 MMBtu Texas Eastern shorthaul transportation and 27,472 MMBtu Tennessee shorthaul transportation. **ComGas** has the ability to interchange volumes of gas between the portion of its distribution system served primarily by Algonquin and the portion served primarily by Tennessee. This capability allows the Company certain flexibility in managing purchases from either system. The Company also receives 4,500 MMBtu/day of firm Canadian supply that is transported on Iroquois Gas Transmission System to Tennessee and finally to the **ComGas** citygate. **ComGas** also has about 7.8 Bcf of underground storage in New York and Pennsylvania with a maximum withdrawal quantity of 96,658 MMBtu/day. **ComGas** has contract capacity in several field storage facilities accessible to Tennessee and Texas Eastern.

The Company also has a contract for an annual quantity of 3.5 Bcf of LNG storage with a maximum vaporization capacity of 270,000 MMBtu/day. Due to system constraints, of the 270,000 MMBtu, only 210,000 MMBtu of LNG can be vaporized on a given day. The LNG facilities are uniquely situated in that the LNG facility in Hopkinton, with an annual capacity of 3 Bcf, is connected to both the Tennessee and the Algonquin pipelines. The other LNG facility with a capacity of 0.5 Bcf, is situated in New Bedford. Given the composition of the Company's Portfolio, on a peak day it can deliver up to 427,000 MMBtu of natural gas into the Company's distribution system. After allowing for heel and system integrity requirements, only 2.3 Bcf of LNG is available to serve customers' needs. **The LNG portion of the portfolio will not be released to the Portfolio Manager**.

With the exception of one Canadian supply contract of 4,500 MMBtu a day, all other supply contracts will expire by March 31, 2000. Most of the Tennessee transportation contracts expire in year 2003 and most of Algonquin and Texas Eastern transportation contracts expire in year 2012. Details concerning transportation and storage contracts along with the details of supply contracts are included in **Attachments E and F**.

F. Unbundling of COMGas' system

As mentioned above, the Company intends to completely open its system to competitive supply for all customers effective April 1, 2000. The Company is in the process of finalizing details of its unbundling plan and will seek Mass DTE approval before April 1, 2000. The Company expects the winning bidder to assume responsibility for the up-stream supply portfolio to provide continued reliable and safe service to **ComGas**' customers and provide reliable, least cost supply service to customers who still want to obtain firm sales service from **ComGas**.

Also, because prospective retail service suppliers believe that the capacity associated with Algonquin's former F2 and F3 contracts is difficult to manage, the Massachusetts LDCs have agreed to remove those contracts from the capacity portfolio being assigned to marketers on a slice-of-the-system basis. These contracts, on various pipelines, will therefore be available to the Portfolio Manager for optimization.

G. QUALIFICATIONS OF Portfolio Manager AND PROPOSAL REQUIREMENTS

ComGas believes it is appropriate to establish the creditworthiness of potential Portfolio Managers prior to selection of those firms with whom **ComGas** intends to enter into negotiations for definitive agreements (i.e., a short list).

To establish creditworthiness, every potential Portfolio Manager must submit the most current three (3) years of financial statements and a current Shareholders Annual Report (if the entity is publicly traded) and a 10-K or equivalent statement.

In addition to financial information, potential Portfolio Managers are encouraged to provide the following additional documentation of their qualifications:

- Firm Deliveries Description on how the company plans to deliver gas to the citygate as well as manage other transportation and storage facilities

- Storage Refill Description on how the company plans to fill market area storage facilities as well as longhaul transportation associated with the facilities.

- References List of current and past resource management deals. Please include a contact name and telephone number.

- Resumes Brief description of the background and experience of the individuals involved in managing the portfolio. Also, the Company requires that the potential Portfolio Manager have qualified scheduling personnel available on a 24-hour basis.

- Contract Term All respondents should include in the respective proposal a bid for a one-year service term, a two-year service term, and a three-year service term. The Company will decide on the final term after reviewing all the submitted proposals.

- Flexibility See Section H. "Services Required."

- Pricing See Section I. "Pricing."

- Supply and Transportation Documentation and Warranties Each bidder should provide detailed documentation of the amount of gas supplies that it owns or controls that are accessible to the applicable delivery points. Each bidder should also provide specific information regarding the status and nature of any upstream transportation that may be used to transport the proposed supplies to designated delivery points. Additionally, it is important to include any information regarding storage capacity your company may own or lease in the market area or the supply area. Finally, potential bidders will be required to provide warranties in support of a contractual commitment.

H. SERVICES REQUIRED

ComGas is receptive to different concepts of service structures, but generally expects that the chosen firm or firms will provide the following services:

1. Assist in implementing the Company's unbundling plan by optimizing the upstream portfolio not assigned to end-users to reliably serve remaining firm sales customers

The Company will assign capacity on a mandatory basis pursuant to the Mass DTE's order approving mandatory assignment of upstream capacity resources. The Mass DTE determined that mandatory assignment based on a "slice-of-the-system" approach will maintain reliability and avoid improper transfer of cost responsibility. The Portfolio Manager will be required to make portfolio changes monthly, as needed, as sales customers migrate to transportation and assume their proper share of the Portfolio.

2. Purchase and delivery of gas for firm sales customers

The Portfolio Manager must arrange delivery of gas to **ComGas'** gate stations by submitting nominations to gas suppliers/transporters including monthly, weekly, daily, and intra-day nominations based on dispatch schedules developed in coordination with **ComGas**. All nominations shall be in accordance with pipeline tariffs and made in a timely manner.

The Company will determine baseload gas supply needed by checking against peak daily sendout to verify that enough supply has been nominated. The least expensive supply path should be utilized first by the Portfolio Manager. The daily five-day forecast is checked daily in the shoulder and winter months to help **ComGas** prepare adequate resources for cold snaps. This information will be used to coordinate efforts with the Portfolio Manager.

3. Offer flexibility of supply for both seasonal and swing volumes and disposing of surplus volumes

Temperature variations and other planned and unplanned events that could occur within the **ComGas** system, on the interstate pipeline system or elsewhere, make it desirable to have extended flexibility to increase or decrease purchases relative to the first of the month nomination or to make up for quantities that **ComGas** was not able to take in a given period. Monthly flexibility provides for monthly nomination variances. Having nominated a monthly quantity of gas, intra-month and intra-day flexibility allows an unlimited number of nomination changes within the month as determined by a monthly take requirement or a daily allowable variance based upon a predetermined percentage of the maximum transportation quantities.

4. Verify supplier/transporter invoices

All invoices must be checked by the Portfolio Manager for accuracy. The Portfolio Manager must work with suppliers, transporters and storage operators to assure matches with nominations and receipts, to assure closure with contractual terms and conditions, to correct inaccuracies, and to present proper verification for payment.

5. Manage all injections and withdrawals out of COMGas' storage facilities for all default firm sales customers.

There must be a positive balance in inventory at all times and ratchet/minimum balance schedules must be followed in order to avoid penalties. On November 1st of each gas year, the inventory balance in all storage facilities is expected to be 95% of full storage capacity. The Portfolio Manager will have to develop a refill plan acceptable to the Company in terms of pricing and operations.

6. Retain the Operational Balancing Agreements

The Company shall retain full responsibilities for confirming all of the daily deliveries to its city gates covered under Buyer's Operational Balancing Agreements (OBA) for both Tennessee and

Algonquin. As such, any penalties caused by Seller not delivering Buyer's Daily Nominated Quantities or the Baseload Nominated Quantities shall be the responsibility of Seller through the provision of gas or payments on account of cash-out balances provided in the OBA.

1. **Open records**

The Portfolio Manager shall keep all records associated with the above transactions and services, which shall be available for review and audit by **ComGas**.

Lastly, the Portfolio Manager should monitor **ComGas'** customer use patterns and notify **ComGas** if there are some use patterns that could affect future operations due to contractual or operational restrictions.

I. PRICING

ComGas operates in an increasingly competitive market, so parties are encouraged to present pricing approaches that are responsive to competitive conditions. **ComGas** is open to various pricing structures and will consider proposals that present alternative pricing approaches; however, each proposal should clearly indicate the preferred pricing methodology. Pricing structures utilizing both least-cost dispatch and average cost dispatch will be considered. The contract for Canadian supply will be the first supply dispatched and will be a monthly baseload volume. **ComGas** offers the following guidelines in setting pricing methodology:

- The proposal must include the total guaranteed up-front payment that **ComGas** will be responsible for regardless of what occurs during the term. This proposal may only include margin sharing in addition to the required up-front payment. ***Please state up-front payment.***

- Pricing proposals should contain a reasonable and supportable mechanism for establishing the price. It also should clearly explain how the pricing mechanism will be implemented.

- The monthly commodity price shall be determined according to the pipeline zone in which the gas is delivered to **ComGas**. For example, for gas delivered to **ComGas**' citygate from Texas Eastern ELA, the price shall equal the index price published in the first issue published in the month of delivery of Inside F.E.R.C.=s Gas Market Report in the table entitled "Prices of Spot Gas Delivered to Pipelines≅ under the heading "Texas Eastern Transmission Corp. ELA" in the column entitled "index≅. **ComGas** is looking to receive different pricing structures for swing gas, both daily and intraday.

- Storage fill gas shall also be paid based upon a monthly index. The monthly price will be the average monthly price weighted evenly across the seven-month summer period.

- Each proposal should include a bid for one-year, two-year and three-year terms of service. It is also suggested that the bidder submit a combined system bid, a bid for the Tennessee capacity and storage exclusively and similarly for the Texas Eastern/ Algonquin capacity and storage.

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J. PROCEDURE

Potential Portfolio Managers should review this RFP carefully. **COMGas** reserves the right to answer such questions in writing and distribute its responses to such questions to all parties who have received a copy of this RFP. Responses to the RFP must be in writing, enclosed in a sealed envelope, and sent to:

Nem C. Jain

Director, Supply Planning and Procurement

Commonwealth Gas Company

157 Cordaville Road

Southborough, MA 01772

Telephone (508) 481-7900, Ext. 2279

All proposals must be received by 4:30 PM , January 31, 2000. COMGas reserves the right to reject any proposal that is not complete in all material respects.

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K. PRINCIPAL TERMS AND CONDITIONS

ComGas encourages potential Portfolio Managers to develop innovative proposals that are responsive to **ComGas'** goals to provide its direct customers with continued reliable, long-term access to adequate supplies of competitively-priced gas; and to assure aggregators of markets beyond its citygates with access to information required to assure continuation of supply and/or distribution services while maximizing throughput. In addition, the manager shall identify the specific supply, transportation and storage services that the manager proposes to administer. The potential Portfolio Managers shall delineate the specific service provisions that the manager is proposing, including: delivery points; commodity hedging; nomination procedures; storage refill, capacity release, and off-system sales programs. MOST IMPORTANTLY, THE PROPOSAL MUST DEMONSTRATE THAT THE RELIABILITY OF CITYGATE SERVICE PROVIDED BY THE potential Portfolio Managers WILL NOT DEGRADE THE RELIABILITY AND QUALITY OF SERVICE THAT HISTORICALLY HAS BEEN PROVIDED BY THE COMPANY.

ComGas requires that the following principal terms and conditions be included in RFP responses:

i. A company Officer must sign all proposals. The Company wants to be assured that all proposals are accurate and have been reviewed and accepted by the Portfolio Manager’s senior management, and that the bidder is willing to execute a contract in accordance with the terms of the proposal. Conditional proposals (for example, bids subject to internal or third-party approvals) will not be considered.

ii. The suggested representatives and supporting organization who would provide the services and would execute an agreement which binds them to use best efforts in managing **ComGas’** supply, transportation, and storage requirements for natural gas.

iii. If a party is selected by **ComGas** for definitive negotiations, what information will be required from **ComGas** in order to finalize an agreement

iv. There must be no conflict of interests that could compromise **ComGas'** current and prospective customer obligations and **ComGas’** responsibilities to serve customers in a reliable cost effective manner. A set of standards addressing the relationship between the Portfolio Manager and its retail marketing affiliate will be included as a condition to the Portfolio Management contract.

v. Ideas must be offered on how the Portfolio Manager intends to match load patterns through the use of storage or other alternatives. Temperature variations and other planned and unplanned market considerations require that **ComGas** retain sufficient flexibility on deliverability on a daily, monthly, and annual basis without the risk of a planned or unplanned reduction in entitlements. Therefore, **ComGas** encourages potential services suppliers to incorporate flexible nomination and make-up provisions, offer suggestions regarding the equivalent of no-notice service, and to offer its suggestions to mitigate balancing penalties.

i. The Portfolio Manager involved must indicate a willingness to execute an appropriate confidentiality agreement.
ii. The Portfolio Manager involved must also indicate a willingness to provide a guaranty ($225,000,000) from its parent company and other financial security instruments, as **ComGas** requires.

i. Each proposal must express a commitment to assume the risk and responsibility associated with: (i) portfolio transactions undertaken by the successful bidder, (ii) fluctuations in the Company's retail load over the proposed term, (iii) changes in rates and terms and conditions (as approved by the appropriate regulatory authorities) of the regulated contracts within the Portfolio, and (iv) imbalance penalties incurred which are the responsibility of the supplier.
ii. A suggested contract is included in **Attachment G**. If the potential Portfolio Manager does not agree with any terms and conditions of the contract, the Manager must submit suggested language and or terms that deviate from **Attachment G**. If the potential Portfolio Manager does not submit any revision, the contract will be executed as attached.
iii. All proposals must contemplate that any pipeline refunds and credits received shall be the property of **ComGas** and not the bidder.
iv. It is imperative that the selected firm (s) have a full comprehension of the State and Federal regulations, and Company tariff and service requirements, regarding the storage, transportation and supply obligations to be assumed by the successful bidder.

L. CONFIDENTIALITY

Potential Portfolio Managers may request that specific information contained in or relative to their proposal be treated by **ComGas** on a confidential basis. Such a request shall be clearly stated on every page of the proposal on which confidential information may appear. **ComGas** and its representatives shall take reasonable steps to protect information that is clearly identified as confidential from disclosure to third parties. Potential Portfolio Managers should understand that **ComGas** may deem it necessary to disclose information regarding the RFP and this solicitation process to regulatory authorities, and that any agreement signed with the successful bidder would need to be filed for approval with the Mass DTE. Upon request by a Potential Manager, **ComGas** shall request that, in connection with any submission to the Mass DTE or any other authority having jurisdictional or oversight responsibilities for **ComGas'** procurement activities, any information designated as confidential by the potential Portfolio Manager shall be afforded protected treatment to avoid disclosure to third parties.

In no event shall **ComGas** be liable for damage resulting from any overt disclosure of confidential information during the period of review and analysis of proposals or during subsequent contract negotiations.

M. PROPOSAL EVALUATION AND CONTRACT NEGOTIATIONS

ComGas will undertake to complete its preliminary analysis of all properly submitted proposals within ten (10) days from the day of submission. Proposals will be evaluated based primarily on reliability and cost effectiveness. However, supporting documentation on deliverability, general industry credibility and reputation, the complexity or the proposed arrangements, and other factors will also be given due consideration.

Following the completion of its preliminary analysis, **ComGas** will individually notify each potential bidder in writing whether or not its proposal was selected for definitive final negotiations. **ComGas** will exercise its best efforts to enter into contract negotiations with those selected promptly after written notification. **ComGas** will exercise its best efforts to complete negotiations and be prepared to execute an agreement for not less than the forthcoming heating season with each selected Portfolio Manager(s) as expeditiously as possible.

N. REGULATORY APPROVAL

Commencement of any services requested by this RFP are subject to the prior approval of the Mass DTE. The Company intends to file the final contract negotiated with the winning bidder or bidders with the Mass DTE on or before February 25, 2000. In the event the Mass DTE approval is not obtained by April 1, 2000, the Company will have the right to re-state the contract commencement date for a reasonable period.

O. FIRM COMMITMENT

ComGas shall not have been considered to have made a firm commitment to purchase gas from any potential Portfolio Manager either through the issuance of this RFP or through the initial selection of any proposal for final contract negotiations. **ComGas** reserves the right, in its sole discretion, to discontinue negotiations with any or all potential Portfolio Managers prior to execution of an agreement, and to alter the terms and schedule of this solicitation. **ComGas** also reserves the right to purchase natural gas or transportation at any time from any source outside of the context of this RFP.

To assist in comprehending **ComGas'** current and prospective needs, **ComGas** has enclosed the following attachments.

ATTACHMENT A - PROJECTED SERVED FIRM DEMAND (2000-2004)

ATTACHMENT B - POTENTIAL PEAK DAY REQUIREMENTS FOR FIRM SALES.

ATTACHMENT C – WEATHER EDD BY DISTRICT, NORMAL AND DESIGN BY MONTH

ATTACHMENT D – FIRM SENDOUT AND COMGAS' CURRENT LOAD DURATION CURVE UNDER NORMAL AND DESIGN CONDITIONS FOR FIRM SENDOUT.

ATTACHMENTS E AND F - A LISTING OF COMGAS' CURRENT PIPELINE AND STORAGE COMMITMENTS

ATTACHMENT G – SUGGESTED CONTRACT

If you have any questions regarding this Request for Proposals please contact:

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